

Teacher Resource Bank

GCE Business Studies

Candidate Exemplar Work and Commentaries:

- AS Units (BUSS1 and BUSS2)



CONTENTS

ITEM	PAGE
Script: Candidate A	3
Commentary: Candidate A	12
Script: Candidate B	15
Commentary: Candidate B	24
Script: Candidate C	27
Commentary: Candidate C	36
Script: Candidate X	39
Commentary: Candidate X	49
Script: Candidate Y	51
Commentary: Candidate Y	62
Script: Candidate Z	65
Commentary: Candidate Z	75

Surname
Centre Numl
Candidate si

CANDIDATE A

For Examiner's Use

General Certificate of Education
Specimen Paper for 2009 and 2010
Advanced Subsidiary Examination



BUSINESS STUDIES
Unit 1 Planning and Financing a Business

BUSS1

<p>For this paper you must have:</p> <ul style="list-style-type: none"> a calculator.

Time allowed: 1 hour 15 minutes

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- Answer the questions in the spaces provided.
- Do **all** rough work in this book. Cross through any work you do not want to be marked.
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Information

- The maximum mark for this paper is 60.
- The marks for questions are shown in brackets.
- Questions 2(b) and 2(c) should be answered in continuous prose. In these questions you will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

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1			
2			
Total (Column 1)		→	
Total (Column 2)		→	
TOTAL			
Examiner's Initials			

BUSS1

Answer all questions in the spaces provided.

Read the case study below and then answer the questions that follow.

Just Juice Ltd

The figures came as a shock. Bill and Anne thought of themselves as entrepreneurs and had expected their business to be successful even though they had no relevant experience. They realised this could make it risky, but had an ambition to own a chain of smoothie bars. Looking at their accounts the first two months of trading, they were beginning to question whether they had made the right decision to give up their highly paid jobs in the City. They had yet to reach their break-even level of sales and over the first ten weeks of trading, *Just Juice Ltd* had only attracted an average of 350 customers per week. 5

Table 1: Just Juice Ltd Costs and Revenues

Variable cost per customer	£3.00
Weekly fixed costs	£1430
Average spend per customer	£6.25

Things had seemed straightforward six months earlier. Their idea of opening a smoothie bar, selling their own unique fruit and vegetable drinks and healthy snacks, had been met with overwhelming approval from family and friends. This enthusiasm seemed justified when their secondary market research confirmed a growing market for their product. The value of UK sales of smoothies grew from £6.3 million in 2001 to £34 million in 2006. A market research report by Mintel suggested a further 300% growth in UK smoothie sales by 2011 as well as increasing demand for drinks made from different fruits and vegetables. 10

Not wanting to leave anything to chance, they had drawn up a detailed business plan. They felt private limited status would give them a number of benefits. They knew little about the smoothie market and conducted primary market research in several towns. Bournemouth seemed an ideal location. Offering a combination of a large population boosted by a thriving tourist industry in the summer, little competition and, most important to Bill and Anne, easy access to the countryside. 15 20

Having located suitable premises, they drew up detailed budgets and cash-flow forecasts. It came as no surprise to them that the Bank Manager agreed to lend them £50 000 towards the start up costs of £110 000, though Anne had argued that they should raise the money from a venture capitalist and not a loan. Bill and Anne were able to raise the remaining £60 000 by selling their property in London and buying a luxury flat in Bournemouth where property prices were generally cheaper. 25

With hindsight it seemed that the planning was the easy bit. They were late opening the bar because of late delivery of supplies and missed some of the summer trade. A competitor managed to set up nearby and open a month before them. Once they started trading, they found it difficult to recruit good quality part-time staff. Another problem was the unexpected 10% increase in the cost of fruit and vegetables due to a poor harvest. Bill and Anne began to question the quality of their business planning and particularly their market research as sales only reached 75% of their budgets. 30

Question One

You are advised to spend no more than **20 minutes** on this section.

- (a) What is meant by the term 'entrepreneurs' (line 1)?

An entrepreneur is someone who is willing to take risks in order to exploit a business opportunity. Normally determined and hardworking.

(2 marks)

- (b) What is meant by the term 'budgets' (line 21)?

Is an agreed plan establishing the policy to be pursued and the anticipated outcome.

(2 marks)

- (c) State **two** non-financial items that the Bank Manager would have expected to see in the business plan for *Just Juice Ltd* before agreeing to the loan.

1. Market map (showing the gaps / competitors in the market ~~and where the product would be sold~~ and where the product would be sold)
2. Objectives of the business

(2 marks)

Turn over for the next question

- (d) Explain one reason why Bill and Anne might have decided to use primary market research as part of their business planning.

Primary market research is the collection of information for a specific purpose, first hand. They might have decided to use it because they can target their questioning, they can choose the questions they ask and so get more relevant and accurate information about their business and what people / customers' want. (4 marks)

- (e) Use the information in the text and Table 1 to calculate *Just Juice Ltd's* total profit or loss over its first ten weeks of trading.

$$350 \times \text{£}3.00 = \text{£}1,050 \text{ - variable costs 1 week}$$

$$\text{£}1430 \text{ - fixed costs 1 week}$$

$$350 \times \text{£}6.25 = \text{£}2,187.50 \text{ Revenue 1 week}$$

$$\text{£}1,050 + \text{£}1430 = \text{£}2,480 \text{ T.C 1 week}$$

$$\text{Profit} = \text{Revenue} - \text{Total Costs}$$

$$\text{£}2,187.50 - \text{£}2,480 = (\text{£}292.50) \text{ 1 week}$$

$$\times 10 = (\text{£}2925)$$

$$10 \text{ weeks} = \text{a loss of } \text{£}2925$$

$$(\text{£}2,925)$$

(6 marks)

- (f) Calculate the percentage growth in the UK market for smoothies between 2001 and 2006.

£6.3 million (2001)

£34 million (2006)

percentage change = $\frac{\text{amount of change}}{\text{original}} \times 100$

$$\frac{27,700,000}{6300000} \times 100 = \cancel{444} 440\%$$

(4 marks)

20

Turn over for the next question

Question Two

- (a) Analyse the possible reasons for *Just Juice Ltd* failing to reach its break-even number of customers.

Possible reasons include that they were aiming at a niche market, ^{unique} as ^{they are only together a certain segment.} that means they won't have many customers. ^{because they are only together a certain segment.} On top of this issue is that because it is new and relatively unknown people can be wary about trying and buying the product, meaning less customers. They missed some of the summer trade which means they lost a lot of potential custom. Most significantly though they had competition nearby and had been open a month meaning they were competing for customers, perhaps their prices were too high for a tourist place like Bournemouth or people had loyalty / preferred their competitor's smoothies. Staffing problems might have impacted on their customer satisfaction or opening hours. Finally they had little experience so they might not have ^(10 marks) exploited the full potential or made mistakes. In conclusion competition is the biggest factor.

To a certain extent I agree, it is a large sum of money and the interest rates would be so high on a bank loan. However both are long term loans and with venture capital you give away share capital.

* and is less likely to get funding from a bank as it is risky. (c)

I think she made the right choice (15 marks) though as ~~she~~ she will get the money from ^{venture capital} ~~bank~~ ~~not~~

To what extent might the drawing up of a detailed business plan guarantee the success of ~~the~~ ~~not~~

Just Juice Ltd.

A business plan is a report describing the marketing strategy, operational issues and financial implications of a business start-up.

A business plan will help persuade lenders to invest capital in the business as the plan shows the likelihood of success. This capital is vital in starting ^{a new business} the business as it is so expensive to fund. Business plans help monitor progress, the performance of the business can be checked against its objectives and forecasts. It sets out the goal and objectives, so helps keep the business on track and helps 'push' the business, people will be encouraged to work hard if they have certain objectives to reach.

- (b) Anne wanted to raise £60 000 of start-up capital from a venture capitalist rather than arranging a bank loan. To what extent do you agree with her?

Venture capital is finance provided to small/medium sized firms seeking growth but are potentially risky, whereas a bank loan is a sum of money provided by a bank for a specific agreed purpose.

I agree with her because bank loans are less flexible and don't take risks, ~~they~~ bank has to be sure the company can repay the loan which Anne can't necessarily ensure as she doesn't know how successful the business will be or

if it will take off at all. New and small firms have to pay high interest rates ^{on bank loans} which will reduce the profit Anne makes. Also ^{for} a bank loan Anne would have to specify a purpose which she may not know as it is to set up the business.

However venture capital takes the form of loans or payment in return for share capital which Anne might not want to give away - share capital is important in a business.

However if it isn't set correctly, the plan could be misleading or the figures and targets could be too high. This would lead to problems in the business such as not a strong enough marketing strategy so not enough customers are attracted impacting on profits.

So in conclusion to a big extent a business plan can help guarantee the success, because they are new business the guidelines will help them monitor their business and success as long as they keep reviewing and modifying it and set realistic targets. ^(15 marks)

40

END OF QUESTIONS

GCE Business Studies

COMMENTARY ON BUSS1 SPECIMEN EXAMINATION PAPER

CANDIDATE A

Question 1(a)

This is an excellent answer which earns full marks in the opening sentence. The second sentence does not really add to the quality of the response because, although it invariably applies to the entrepreneur, it can also apply to employees or employers. As such, it is not distinguishing between entrepreneurs and other staff.

Question 1(b)

Candidate A has omitted the crucial word 'financial' in front of the word 'plan' in the opening sentence. This is an unusual answer as most candidates recognise that budgets are about finance but often do not recognise the 'agreed plan' element of the definition.

Question 1(c)

Although a market map is not expected in a business plan, the comment on competitors in the market is expected and so it is this element of the first point that gains the mark. The second bullet point is correct.

Question 1(d)

This response proves that the candidate has a comprehensive understanding of primary market research. In accordance with the marking scheme, two 'content' marks are awarded for a good understanding of the term. However, the explanation is vague and lacks application to Bill and Anne's business or its situation.

Question 1(e)

An excellent calculation that earns all six marks. The high quality of this answer is exemplified by the clarity of the working out provided by the candidate. If an arithmetic mistake had been made at some stage of the calculation it would have been easy to apply the 'Own Figure Rule' and give full credit to the student for those parts of the calculation that were correct. Candidate A has shown excellent examination technique in this response although, ironically, the examiner has only needed to see the bottom line to award the six marks.

Question 1(f)

This is another excellent calculation, clearly presented and earning full marks.

Question 2(a)

The great strength of this response is that it is embedded in the case study. Every argument presented is derived from a situation facing *Just Juice Ltd* and so application marks are awarded throughout the answer. The clarity of the explanations and the ability of the candidate to develop a line of argument also mean that full marks are awarded for analysis.

Question 2(b)

Terms are defined in the opening paragraph and content marks are awarded. The argument in the second paragraph shows good analytical and application skills with some judgement. However, the third paragraph which focuses on a discussion of venture capital is very vague, with no reason given as to why share capital is important to the business. Rather limited support is given to the judgement presented in the final conclusion. Nevertheless, the strength of the early arguments ensures that this response earns a creditable reward.

Question 2(c)

Candidate A shows a very good understanding of business plans and develops a logical line of arguments that show how the business plan can help the success of a business. However, only analysis marks can be awarded for the vast majority of this response because there are no references to *Just Juice Ltd* or its situation. The final paragraph makes a brief reference to the fact that the business is new and makes a weak, rather unsupported judgement and so minimal credit can be given for application and evaluation. To improve on this answer, Candidate A needed to relate the business plan to situations in the case study and to focus more fully on the wording of the question, which was asking for the extent to which the business plan guaranteed success.

Overall

Candidate A found the evaluation questions at the end of this paper more challenging. However, the candidate showed excellent skills in all other respects and earned the vast majority of the content marks available, thus providing a very sound foundation. A high level of understanding of business theory was demonstrated and these skills were applied effectively to the case study. Overall, this script would have received a very good reward.

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CANDIDATE B

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BUSINESS STUDIES
Unit 1 Planning and Financing a Business

BUSS1

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BUSS1

Answer **all** questions in the spaces provided.

Read the **case study** below and then answer the questions that follow.

Just Juice Ltd

The figures came as a shock. Bill and Anne thought of themselves as entrepreneurs and had expected their business to be successful even though they had no relevant experience. They realised this could make it risky, but had an ambition to own a chain of smoothie bars. Looking at their accounts the first two months of trading, they were beginning to question whether they had made the right decision to give up their highly paid jobs in the City. They had yet to reach their break-even level of sales and over the first ten weeks of trading, Just Juice Ltd had only attracted an average of 350 customers per week. 5

Table 1: Just Juice Ltd Costs and Revenues

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Not wanting to leave anything to chance, they had drawn up a detailed business plan. They felt private limited status would give them a number of benefits. They knew little about the smoothie market and conducted primary market research in several towns. Bournemouth seemed an ideal location. Offering a combination of a large population boosted by a thriving tourist industry in the summer, little competition and, most important to Bill and Anne, easy access to the countryside. 15 20

Having located suitable premises, they drew up detailed budgets and cash-flow forecasts. It came as no surprise to them that the Bank Manager agreed to lend them £50 000 towards the start up costs of £110 000, though Anne had argued that they should raise the money from a venture capitalist and not a loan. Bill and Anne were able to raise the remaining £60 000 by selling their property in London and buying a luxury flat in Bournemouth where property prices were generally cheaper. 25

With hindsight it seemed that the planning was the easy bit. They were late opening the bar because of late delivery of supplies and missed some of the summer trade. A competitor managed to set up nearby and open a month before them. Once they started trading, they found it difficult to recruit good quality part-time staff. Another problem was the unexpected 10% increase in the cost of fruit and vegetables due to a poor harvest. Bill and Anne began to question the quality of their business planning and particularly their market research as sales only reached 75% of their budgets. 30

Question One

You are advised to spend no more than **20 minutes** on this section.

- (a) What is meant by the term 'entrepreneurs' (line 1)?

An entrepreneur is a person who starts up a new business that is very risky. ~~was~~

(2 marks)

- (b) What is meant by the term 'budgets' (line 21)?

A Budget is a financial plan ~~which~~ in which ~~costs~~ future costs, revenues and therefore profits are ~~are~~ predicted, by using predicted sales figures.

(2 marks)

- (c) State **two** non-financial items that the Bank Manager would have expected to see in the business plan for *Just Juice Ltd* before agreeing to the loan.

1 marketing strategy

2 ~~and~~ The Business idea

(2 marks)

Turn over for the next question

- (d) Explain **one** reason why Bill and Anne might have decided to use primary market research as part of their business planning.

They may have used primary market research as part of their Business Plan to show that their venture idea is likely to be plausible and will be successful. As Bill and Anne don't have much experience in running ~~this~~ this business so the primary research would help them predict sales figures and costs. (4 marks)

- (e) Use the information in the text and **Table 1** to calculate *Just Juice Ltd's* total profit or loss over its first ten weeks of trading.

FC £ 1430 350 Customers per week
VC £ 3.00

$$\text{Revenue Profit} = \text{Total Revenue} - \text{Total Cost}$$

$$\text{TR} = (350 \times 10) \times £6.25$$

$$\text{TR} = 21875$$

$$\text{TC} = £1430 + (£3.00 \times 3500)$$

$$\text{TC} = £11930$$

$$\text{P} = 21875 - 11930 = £9945 \text{ - (profit)}$$

(6 marks)

- (f) Calculate the percentage growth in the UK market for smoothies between 2001 and 2006.

2001 £6.3 million

2006 £34 million

$$34 - 6.3 = 27.7$$

$$\frac{27.7}{6.3} \times 100 = 439.68$$

(4 marks)

20

Turn over for the next question

Question Two

- (a) Analyse the possible reasons for *Just Juice Ltd* failing to reach its break-even number of customers.

Just Juice may not have reached the break even amount of customers as they ~~didn't~~ may not have promoted their business enough to make potential customers aware that these products existed, therefore they are missing out on a lot of potential customers that would buy their products if they knew it existed.

Another possible reason is that they may have set their prices incorrectly to what the customers are willing to pay and so the customers may have paid more for their bought goods which would have increased the revenue and therefore they would have more of a chance of reaching the breakeven.

Also they may ~~not~~ have overestimated the growth of this market and therefore in order to meet their expected targets then they may have to change their plans and strategies to accommodate this. (10 marks)

- (b) Anne wanted to raise £60 000 of start-up capital from a venture capitalist rather than arranging a bank loan. To what extent do you agree with her?

~~It~~ It would be a good idea for Anne to raise the £60 000 as venture capital as then Just Juice Ltd would get the money without having to repay it with high interest rate and therefore their fixed costs would be lower than if they have a bank loan.

However having this venture capital would mean that the person who supplied the capital would own part of the shares of the business and therefore ~~the~~ Anne and Bill will no longer have control over those shares. ~~which could lead to them~~

Another reason to have the venture capital is that they wouldn't have had to sell their property in London and they could have rented it out while they live in Brighton or use the money from the sale of the property to do more research so they understand the market they are entering a more. Overall I think agree with Anne in getting venture capital as ~~they~~^{it's}

risky businesses like these and therefore they wouldn't have to
 are the money to ^{the} bank and have to pay it back, so they can use
 the extra money to improve the business.

(15 marks)

- (c) To what extent might the drawing up of a detailed business plan guarantee the success of *Just Juice Ltd.*

Having a detailed business plan could mean that *Just Juices Ltd* are more successful as they will be more aware of what their goals are and therefore they can make strategies and plans that fulfil these goals more precisely.

However this could mean that they rely on the plan too much and if Anne and Bill don't take their initiative when maybe the ~~the~~ plan doesn't necessarily work with what is actually happening, therefore they may lose money by sticking to the plan instead of going against it when they need ~~to~~.

By having a business plan they will be able to tell whether they are

making their targets or not and if not then they will be able to discover this ~~earlier~~ earlier and think of a way of ~~av-~~ coming this.

Overall I think having a business will help make the business more focused on what their goals are but Anne and Bill may not need to stick to it in order to make the most money.

(15 marks)

40

END OF QUESTIONS

COMMENTARY ON BUSS1 SPECIMEN EXAMINATION PAPER

CANDIDATE B

Question 1(a)

This is a good answer. Candidate B recognises that risk-taking is a factor within entrepreneurship, but the wording used oversimplifies this aspect of the definition. It is not certain that being an entrepreneur is very risky. However, the key features are shown and this answer deserves credit.

Question 1(b)

This is an excellent, comprehensive definition that earns full marks.

Question 1(c)

The stem of this question, starting with the word 'state', means that reasons do not need to be given. Candidate B shows good examination technique by just stating two factors that would be included in the business plan.

Question 1(d)

This response could apply equally to both primary and secondary market research. The answer is rather ambiguous, although the latter part of the answer (relating to Bill and Anne's lack of experience) does receive credit. A definition of primary market research at the outset would have overcome this ambiguity.

In this question the distinction between the two types of market research was not requested. However, it is worth noting that where a question asks for a specific element of a topic, eg *primary* market research as opposed to secondary market research, the answer needs to be clear enough to show that it is based on the specific element. This answer would not have provided that distinction.

Question 1(e)

This answer is incorrect. However, it is a perfect example of the need to show clear calculations and working out. Because of the clarity of the working out provided by Candidate B it is easy to see that there is only one minor error – weekly fixed costs have been used instead of multiplying the weekly fixed cost figure by ten to match the ten week period in the question. The examiner is able to apply the 'Own Figure Rule' and give full credit to the candidate for the rest of the calculation. As the remainder of the answer is correct Candidate B secures a high (but not the maximum) mark. It is worth noting that an answer of £9945 without any working out being shown would have been given zero marks.

Question 1(f)

Advise your candidates not to do this! This candidate has calculated the answer and then crossed it out. Almost certainly this is because an answer in excess of 100% is often disconcerting to candidates. Remember percentage increases can exceed 100%.

Candidate B earned credit for their working out but if the answer had been fully crossed out the candidate could not have been credited for an answer that could not be read. There is no replacement answer so the examiner will credit this calculation.

Question 2(a)

This response possesses two main weaknesses. There is no definition of break even and there is no attempt to link the response to *Just Juice Limited*. However, a couple of arguments that are presented are possible reasons for a company failing to reach its break-even output and there is some, limited explanation provided in the opening two paragraphs. As a result, some marks are awarded for content (two possible reasons) and analysis (some development of a line of argument).

Question 2(b)

The opening paragraph indicates that the candidate has some understanding of venture capital. The remainder of the answer shows some analytical and application skills but there is a lack of precision within the answer. However, the final paragraph does conclude with some evaluation and as marks have been earned steadily throughout the response, the overall mark is good.

Question 2(c)

In this final question, Candidate B repeats the mistake that was made in question 2(a). Although there is not a clear understanding of the business plan there are valid points made as to how a business plan can help a business to achieve success. There is also some logical development of arguments and so some analysis marks can be awarded. The answer concludes with a limited evaluation.

Overall

Candidate B performs steadily throughout the paper, showing particular strengths with definitions and calculations. Although questions 2(a) and 2(c) were the weakest areas, content and analysis marks were still accumulated on these questions. Despite some inconsistencies, overall, this candidate produced a commendable set of responses.

Surname	
Centre Number	
Candidate signature	

CANDIDATE C

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BUSINESS STUDIES
Unit 1 Planning and Financing a Business

BUSS1

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Read the case study below and then answer the questions that follow.

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Not wanting to leave anything to chance, they had drawn up a detailed business plan. They felt private limited status would give them a number of benefits. They knew little about the smoothie market and conducted primary market research in several towns. Bournemouth seemed an ideal location. Offering a combination of a large population boosted by a thriving tourist industry in the summer, little competition and, most important to Bill and Anne, easy access to the countryside. 15 20

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Question One

You are advised to spend no more than **20 minutes** on this section.

- (a) What is meant by the term 'entrepreneurs' (line 1)?

Entrepreneurs are extremely diverse in nature.
They can easily engage in entrepreneurial activities
which are brilliant for working in businesses.

(2 marks)

- (b) What is meant by the term 'budgets' (line 21)?

Budgets are financial plans used to predict
number of sales and the amount of costs
a business ~~can~~ could pay.

(2 marks)

- (c) State **two** non-financial items that the Bank Manager would have expected to see in the business plan for *Just Juice Ltd* before agreeing to the loan.

- 1 Any marketing objectives that have been decided due to their market research.
- 2 What experience the ~~know~~ Bill and Anne have had in businesses.

(2 marks)

Turn over for the next question

- (d) Explain **one** reason why Bill and Anne might have decided to use primary market research as part of their business planning.

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(4 marks)

- (e) Use the information in the text and **Table 1** to calculate *Just Juice Ltd's* total profit or loss over its first ten weeks of trading.

$$\begin{aligned} \text{Profit/Loss} &= \text{Total Revenue} - \text{Total Costs} \\ \text{Total Rev} &= \text{Average spend per customer} \times 350 \text{ customers per week} \\ &= \pounds 6.25 \times 350 \\ \text{Rev Per week} &= \pounds 2187.50 \times \underline{10 \text{ weeks}} \\ &= \pounds 21875 \\ \text{Total Costs} &= \text{VC} + \text{FC (for 10 weeks)} \\ \text{FC} &= \pounds 1430 \times 10 = \pounds 14300 + \pounds 10500 = \pounds 24800 \\ \text{VC} &= \pounds 3.00 \times 350 \times 10 = \pounds 10500 \\ \text{Profit/Loss} &= \pounds 21875 - \pounds 24800 \\ &= \pounds (2925) \\ &\text{LOSS} \end{aligned}$$

(6 marks)

- (f) Calculate the percentage growth in the UK market for smoothies between 2001 and 2006.

$$\text{Percentage growth} = \frac{\text{Change in } \text{R}^2}{\text{Original}} \times 100$$

$$= \frac{27.7 \text{ million}}{6.3 \text{ million}} \times 100$$

$$= 439.6825$$

$$= 440\% \text{ increase}$$

(4 marks)

20

Turn over for the next question

Question Two

- (a) Analyse the possible reasons for *Just Juice Ltd* failing to reach its break-even number of customers.

Break - even is where total revenue is equal to total costs.

One reason for *Just Juice Ltd* failing to reach break-even is that a number of customers may be down to a lack of promotion.

More people need to know about the company and its products.

(10 marks)

- (b) Anne wanted to raise £60 000 of start-up capital from a venture capitalist rather than arranging a bank loan. To what extent do you agree with her?

Venture capital is ~~so~~ finance provided to a small company for a small share of the business.

I do agree that ~~a~~ venture capital is needed. Firstly it is good to choose a venture capitalist as there are no interest rates compared to a bank loan.

.....
.....
.....
.....
.....
.....

(15 marks)

(c) To what extent might the drawing up of a detailed business plan guarantee the success of *Just Juice Ltd.*

Business plan is a report describing the marketing strategy, & financial implications of a business start-up.

It will help a business start up and become successful because they will have ideas in their heads of what is needed.

Cash flow forecast can predict the firm's financial structure for banks.

Area with 15 horizontal dotted lines for writing.

(15 marks)

40

END OF QUESTIONS

COMMENTARY ON BUSS1 SPECIMEN EXAMINATION PAPER

CANDIDATE C

Question 1(a)

Although all of these responses are correct, they do not reveal any real understanding of 'entrepreneurs'. Slightly modifying words or paraphrasing the question in the way that this candidate has done by mentioning that entrepreneurs "engage in entrepreneurial activities" is not enough, although it does indicate that they have probably met the term before. There is not enough in this answer to suggest that the candidate understands the term.

Question 1(b)

This is a sound, well-expressed definition that warrants both marks available for this question.

Question 1(c)

Candidate C has (unnecessarily) provided some explanations. The answer clearly identifies two non-financial items that would be included and is awarded two marks.

All three candidates have successfully avoided referring to the 'financial items' that they have been asked to avoid. Under examination pressure candidates can forget restrictions such as this.

Question 1(d)

Leaving a question unanswered is an example of poor examination technique. If a candidate is unable to think of an answer then they should continue with the paper and return to this question at the end of the examination, if time permits. If the candidate is still unable to think of a suitable response then it is worth guessing. A correct guess may earn a mark or two; a blank sheet is guaranteed zero.

Question 1(e)

An excellent calculation that earns all six marks. The clarity of the working out provided by the candidate again would prove to be useful if an arithmetic mistake had been made.

Question 1(f)

This is another excellent calculation, clearly presented and earning full marks.

Question 2(a)

This response is much too brief! It commences with a definition (an excellent start to a BUSS1 answer) but does not really progress. One reason is identified by the candidate but the attempt to analyse is unconvincing because of its brevity and there is no application at all.

Question 2(b)

Venture capital can cause difficulties for candidates because it takes two different forms. It can be in the form of share capital but it may also be a loan. Exposure to programmes such as Dragons' Den, where the venture capitalists invariably take a share of the equity/ownership of the business, can disguise the full nature of the concept.

Question 2(c)

Candidate C earns content marks by providing a mixture of factors and ideas. However, only in paragraph two is there any attempt to develop the line of thought and the development here is not enough to warrant any credit. Candidate C has fallen into a common trap of providing answers of a similar length to all of the questions, regardless of the mark allocation. There is as much development of the answer to 1(c) (which required no explanation), as there is to questions 2(a) to 2(c) which collectively were worth 40 marks.

Overall

The brevity of the answers to questions 2(a) to 2(c) has proved to be costly for Candidate C. Based mainly on excellent calculations, question 1 has earned the candidate a mark that is comparable to Candidate B (and not far short of Candidate A) on that part of the paper. However, Candidate C has earned few marks on question 2 because there has been no serious attempt to offer explanations.

Surname	
Centre Number	
Candidate signature	

CANDIDATE X

For Examiner's Use

General Certificate of Education
Specimen Paper for 2009 and 2010
Advanced Subsidiary Examination



BUSINESS STUDIES
Unit 2 Managing a Business

BUSS2

<p>For this paper you must have:</p> <ul style="list-style-type: none"> a calculator.

Time allowed: 1 hour 30 minutes

For Examiner's Use			
Question	Mark	Question	Mark
1			
2			
Total (Column 1)		→	
Total (Column 2)		→	
TOTAL			
Examiner's Initials			

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- Answer the questions in the spaces provided.
- Do all rough work in this book. Cross through any work you do not want to be marked.
- If you need additional space, you should continue your answers at the end of this book indicating clearly which question you are answering.

Information

- The maximum mark for this paper is 80.
- The marks for questions are shown in brackets.
- Questions 1(c), 1(d), 2(c) and 2(d) should be answered in continuous prose. In these questions you will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

Answer **all** questions in the spaces provided.

1 Read the case study below and then answer the questions that follow.

Making a packet?

William Chase is a farmer turned entrepreneur. For nearly twenty years William has grown potatoes on his farm in Herefordshire. Most were supplied to supermarkets, but this became an increasing problem. A falling net profit margin on potatoes meant that William decided it was not worthwhile continuing to supply supermarkets, and that a change of direction was needed. 5



At this point, William took a gamble. Instead of selling his potatoes he switched to making high-quality, hand-made crisps – most crisps in the UK are made by machines. The company controls the production process from the selection of the right varieties of potato to make crisps through to the manufacturing process using “...a secret, refined traditional recipe.” The company uses no pesticides or additives. It also only sells in selected outlets, recently refusing to supply Tesco. 10

The decision was a success and the company, *Tyrrells Ltd*, has established itself as a quality supplier of a wide range of crisps. *Tyrrells Ltd* plans to increase its sales – the company’s turnover is forecast to double from £6 million to £12 million over the next year. This is likely to mean a much larger workforce. Currently it has 45 production staff all of whom are fully trained in all aspects of making crisps. The workforce are, therefore, highly flexible and motivated. 15

Tyrrells Ltd sells in a niche market and distributes its potato crisps directly to 6 000 quality independent retailers throughout the UK, including the Waitrose supermarket chain. It faces tough competition from larger established manufacturers of crisps, for example, Walkers Foods Ltd. *Tyrrells Ltd*’s crisps sell for 54 pence per 50 gram bag compared with 41 pence for a similar sized bag of Walkers’ crisps. *Tyrrells Ltd* won gold, silver and bronze industry awards for its crisps last year giving a major boost to its marketing campaign. It is building on its success and excellent reputation by expanding into new markets. 20

Sources: adapted from BBC News at bbc.co.uk/news and photograph from www.tyrrellspotatochips.co.uk

- (a) Explain, with the aid of a numerical example, what is meant by the phrase "...falling net profit margin..." (line 3).

Falling net profit margin is commenting on the state of the firm's turnover and percentage of ~~profit~~ Net profit is turnover. If it is falling then you are selling more units to create the amount of profit for example:

$$\text{Net Profit Margin} = \frac{\text{Net profit}}{\text{Sales turnover}} \times 100$$

$$10\% = \frac{£0.1m}{£1.0m} \quad \text{Decreased amount of } \frac{£0.05m}{£1.0m}$$

- (b) Analyse the importance of monitoring quality to Tyrrells Ltd. (4 marks)

Quality is very important for Tyrrells Ltd. as it is the reason why it is in a niche market, without quality their crops would compete against the likes of Walmart who would win due to massive operations and economies of scale meaning cheaper crops and Tyrrells Ltd. getting less revenue and market share. Quality gives the products a unique selling point that is associated with the brand, if quality were to go then many people who are aware of the brand would stop buying due to poor quality leaving Tyrrells Ltd. without a consistent revenue stream that could lead to problems if they need to pay back any loans as well as making financial forecasting a lot more difficult resulting in way budgeting in sectors such as marketing.

(9 marks)

- (c) Discuss the factors that might have influenced *Tyrrells Ltd's* choice of a marketing mix for its crisps.

The Marketing Mix is the few aspects of marketing that need to be considered when marketing a product. They are price, place, product and promotion.

The amount of cash the firm has is an obvious factor. With it starting up as a small operation from a farm they would not be able to spend a lot on promotion especially types such as television or newspaper advertising. With lack of money pricing strategies such as price skimming would need to be used. As *Tyrrells Ltd* would need to pay off start up costs for things such as machinery.

Another important influence would be William Chesebrough's experience in growing potatoes. He would know what the quality of the product would need to be and this would result in a more authentic taste and a USP due to variety of potatoes used. Revenue would therefore increase as competitors such as *Walkers* do not have as farming background that would reassure customers of quality.

Overall William Chesebrough's experience is the most important factor as it enables him to differentiate and influence all parts of the marketing mix.

(12 marks)

- (d) Some business analysts believe that training will be the key to *Tyrrells Ltd* maintaining an effective workforce as the company doubles its size. To what extent do you agree with this view?

Training is a method of motivating employees by giving potential for job rotation and such qualities as empowerment. It can be either on the job or off the job.

I agree with this view as since *Tyrrells Ltd.* is such a small operation much of the character of operations will be lost with growth (diseconomies of scale) and training could maintain the workforce's motivation. This would then make employees work harder and increase productivity and thus eventually profits.

However training of so many employees would take time to do with all the varied skills to learn and this could upset revenue as it is still a small operation compared to ones like *Kettle Chips*. Time spent training could lose them in opportunity costs as the market is growing quickly and the money could be spent expanding on a larger market share.

Although if they want sustained growth they shall train the workforce as it will motivate them and make them happy (job enrichment) which is a characteristic of the welfare of the moment.

(15 marks)

40

2 Read the case study below and then answer the questions that follow.

High Performance

Chris Bertolotti is only 27, yet owns and manages a highly successful business, *CB Tyres Ltd*. Three years ago, Chris was a tyre fitter with Kwik-Fit before leaving to set up his own internet-based tyre-fitting company. Chris's company now supplies nearly 1000 independent garages with tyres and has an annual turnover of £1.9 million.

Chris had worked for Kwik-Fit for five years. It was during this period that he spotted a gap in the market for the supply of famous brand specialist tyres (eg Pirelli) for high performance cars. He set up *CB Tyres Ltd* in 2004. Customers order tyres on the internet. The following day they have them fitted at the nearest garage to them which is a member of Chris's 'Performance Tyres Scheme'. Chris explains his business. "I hold the stock at the warehouse in Coventry and dispatch them as soon as an order is received. The garage then fits the tyres for my customers. Having an efficient network of garages supplying tyre fitting services for me is essential. High quality customer service is the most important operational issue for my business."

Table 1: Revenue, cost and profits budget CB Tyres Ltd August and September 2007

	August		September	
	Budget (£000s)	Actual (£000s)	Budget (£000s)	Actual (£000s)
Sales revenue		162 500	170 000	166 000
Purchases of stock	86 750	86 700	90 010	89 450
Wages and salaries	16 850	16 600	17 360	17 400
Overheads	40 110	42 000	40 110	41 500
Other costs	12 400	13 000	12 980	12 850
Total costs	156 110	158 300	160 460	154 200
Profit/(Loss)	7 890	4 200	9 540	4 800

The company's workforce is currently twelve people and has risen steadily as Chris has appointed people through external recruitment. The company employs an office manager, a warehouse manager as well as administrators and drivers. All Chris's employees are full-time, permanent employees.

CB Tyres Ltd's turnover has increased from £190 000 in 2004 to its current figure of £1.9 million. Chris recognises that his policy of supplying customers quickly and efficiently is his business's USP and a major factor in sales growth. Chris has also maintained a policy of keeping prices low; his extensive advertising stresses the quality of service and price competitiveness, though this is difficult against larger rivals such as Kwik-Fit.

The financial side of the business has caused some problems. The company has relatively high fixed costs in the form of stocks of tyres and the costs of maintaining its delivery network and website. These costs have been a burden whilst sales have been low. Chris's pricing policy has meant that profit margins have been slim (at 5%) and the company has had to sell high volumes to make a reasonable profit.

- (a) (i) Calculate *CB Tyres Ltd's* **budgeted** sales revenue for August 2007 and its **actual** total costs for September 2007.

$$\begin{aligned} \text{Sales Revenue} &= \text{Profit} + \text{Total Costs} \\ &= \text{£156110} + 7890 \\ &= \text{£164000} \end{aligned}$$

$$\begin{aligned} \text{Total Cost} &= \text{£89450} + \text{£12400} + \text{£41500} = \text{£12850} \\ &= \text{£161200} \end{aligned} \quad (2 \text{ marks})$$

- (ii) Calculate the company's profit variance for the two months August and September 2007. You should state whether it is favourable or adverse.

$$\text{Profit Variance} = \text{Actual Profit} - \text{Budgeted Profit}$$

$$\begin{aligned} \text{August} &= \text{£4200} - \text{£7890} \\ &= \text{£3690 adverse} \end{aligned}$$

$$\begin{aligned} \text{September} &= \text{£4800} - \text{£9540} \\ &= \text{£4260 adverse} \end{aligned}$$

$$\text{£3690} + \text{£4260} = \text{£7950 adverse}$$

Favourable / Adverse
(6 marks)

Question 2 continues on the next page

- (b) Analyse two advantages to *CB Tyres Ltd* of using external recruitment to appoint new employees.

External recruitment is employing workers who have not worked at the company before. One advantage of this is that the firm has a greater pool of people to select from. With more variety it is likely to find a person to fit the place more effectively, for instance they may have experience as an engineer and this could benefit the business by employees being more used to the engineer industry type of motivators and so can work more effectively with it. Another advantage is that bringing in new members will motivate current employees by satisfying their social needs (Maslow). This is especially apt as they are all permanent employees and so see their fellow workers most days. These motivators would see reduce costs of the business which is needed especially in a sharp hit that they're experiencing at the moment.

(8 marks)

- (c) To what extent do you agree with Chris that, "High quality customer service is the most important operational issue..." for his business (line 12)?

I agree with that partly. Due to the specialist
 based sold it is a niche market for people who are
 wealthy, an expectation of customer service is there
 and it can result in a consistent amount of revenue
 from people continuing with business there is the hope
 that it especially important during financial problems
 that they can rely on customer coming back.

On the other hand it may not be the most important
 issue. Due to Chris's pricing policy of 5%
 mark up the quality service is not getting matched
 by profitable sales meaning it is a potential waste
 of time as cost and time is going on to this

Overall though high quality customer service is not
 renowned in the mechanics industry and this is a
 niche area. Through word of mouth the brand could
 be built up amongst customers who could in the
 future pay a premium for customer service which
 would benefit the business greatly.

(11 marks)

- (d) Evaluate the actions that *CB Tyres Ltd* might take to improve its profitability.

Profitability is the amount of profit a business makes after fixed and variable costs are subtracted.

A possible action for the business is to have a policy of lean production - cutting out all waste. With such things as deliveries just in time supplying could be used. With all cash locked up in tyres this could impair the health of the cash flow possibly provoking and fines for late payments of overdrafts or loans. This could also create a good relationship with suppliers as they can pay on time resulting in possible discounts and therefore increased profitability.

With the VSP Chris could charge a premium on his tyres due to the fast road service centres. With an increase over 5% there will be no real decrease of sales as specialty tyres are price insensitive and so volume and this profit will increase.

In conclusion if Chris wanted short term profitability then choosing to raise prices could be the best option because increasing the efficiency of operations would save both labour and this a more stable route to higher profitability.

(13 marks)

END OF QUESTIONS

COMMENTARY ON BUSS2 SPECIMEN EXAMINATION PAPER

CANDIDATE X

Question 1(a)

This is an excellent answer which earns full marks. Candidate X presents a correct formula for net profit margin and then introduces two simple calculations in order to show the decrease in the net profit margin.

Question 1(b)

The strength of this response is the combination of analysis and application. Because the explanations of the importance of quality are rooted in the case, Candidate X is acquiring both application and analysis marks. Some of the arguments in this answer were focused on issues of less direct importance, although the argument related to the unique selling point was very pertinent.

Candidate X also keeps to the question by not extending the answer into an analysis of reasons why it is *not* important to monitor quality. All too often time is wasted in analytical questions by candidates trying to argue both sides when it is not required. It is in the evaluation questions that a balanced judgement is more likely to be needed.

Question 1(c)

This answer defined terms at the outset but did take a while to get into the question. However, from the middle of the second paragraph the candidate produces an excellent combination of application and analysis, drawing effectively and imaginatively on the material provided in the case study. The only criticism of this answer is the fact that it was rather late before there was any evaluation and, therefore, it fell slightly short in this skill, although some judgement was shown towards the end of the penultimate paragraph.

In the final paragraph, there was clear evidence of evaluative skills, albeit in a relatively simplistic manner. Questions such as 1(c) are often the ones that candidates find hardest to evaluate, because there is no scope for balancing advantages and disadvantages, or benefits and problems. Candidate X's opening line of the final paragraph, where *the most important* factor is focused on, is an excellent route to evaluation in this type of question.

Question 1(d)

This response confirms that the candidate has a good grasp of business theory, drawing in concepts such as motivation, empowerment, diseconomies of scale and opportunity cost in a relevant way. The effective use of the case study material confirms the extent to which Candidate X is thinking on the day and not producing 'rehearsed' answers. Unfortunately, too much time is devoted to introducing analytical concepts and the candidate fails to recognise that a high proportion of the marks available for this question are for evaluation (one third).

Although this part of the question pulls the overall mark down (relative to parts (a) to (c)), the consistency of the answers still ensure that Candidate X is on track for a good grade at this stage of the examination paper.

Question 2(a)(i)

The calculations are clearly presented and earn both available marks.

Question 2(a)(ii)

This answer shows the benefit of clearly presented calculations and working out within the examination paper. Candidate X has made a careless arithmetic error in the September calculation and so £4260 adverse is incorrect. With the 'Own Figure Rule' being applied to this final line, Candidate X would earn five of the six marks because it is easy to see that only one minor arithmetic error (and no conceptual errors) has been made in the calculations.

Question 2(b)

This answer starts promisingly, with a clear definition of external recruitment followed by a relevant advantage. This is analysed and then applied in the context of *CB Tyres Ltd*. However, the second advantage possesses more imagination than business logic - it is rather stretching the benefits of external recruitment to suggest that it is there to satisfy the social needs of the workforce. Consequently, this argument has not been accepted because external recruitment serves a totally different purpose. Furthermore, any benefit of this nature could have been found (possibly to a greater extent) from internal recruitment.

Implicitly, any question asking for the advantages of external recruitment is asking for a contrast to its alternative: internal recruitment. An advantage that could be applied equally to both internal and external recruitment is not addressing the question.

Question 2(c)

This is a very good answer with evaluation being shown in both the opening paragraph and in the final paragraph. Knowledge, application and analysis marks have been earned in the opening two paragraphs and the response has remained focused on the question throughout.

Question 2(d)

The strength of this response lies in the fact that the candidate is thinking of *CB Tyres Ltd's* situation. Consequently, the arguments are very pertinent to a tyre company and specifically to *CB Tyres Ltd*. The answer concludes with a solid piece of evaluation, although this answer would have benefited from some judgements in earlier paragraphs.

Overall

Candidate X found evaluation more challenging than the other skills. However, excellent skills were shown in all other respects and a high level of understanding of business theory was also demonstrated.

Surname	
Centre Number	
Candidate signature	

CANDIDATE Y

For Examiner's Use

General Certificate of Education
Specimen Paper for 2009 and 2010
Advanced Subsidiary Examination



ASSESSMENT ...
QUALIFICATIONS
ALLIANCE

BUSINESS STUDIES
Unit 2 Managing a Business

BUSS2

<p>For this paper you must have:</p> <ul style="list-style-type: none"> a calculator.

Time allowed: 1 hour 30 minutes

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- Answer the questions in the spaces provided.
- Do all rough work in this book. Cross through any work you do not want to be marked.
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For Examiner's Use			
Question	Mark	Question	Mark
1			
2			
Total (Column 1)		→	
Total (Column 2)		→	
TOTAL			
Examiner's Initials			

Information

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Answer **all** questions in the spaces provided.

- 1 Read the case study below and then answer the questions that follow.

Making a packet?

William Chase is a **farmer** turned entrepreneur. For nearly twenty years William has grown **potatoes** on his farm in Herefordshire. Most were supplied to supermarkets, but this became an increasing problem. A **falling net profit margin** on potatoes meant that William decided it was not worthwhile continuing to supply supermarkets, and that a change of direction was needed. 5



At this point, William took a **gamble**. Instead of selling his potatoes he switched to making **high-quality, hand-made crisps** – most crisps in the UK are made by machines. The company controls the production process from the selection of the right varieties of potato to make crisps through to the manufacturing process using “...a secret, refined traditional recipe.” The company uses no pesticides or additives. It also only sells in selected **outlets**, recently refusing to supply Tesco. 10

The decision was a success and the company, *Tyrrells Ltd*, has established itself as a **quality supplier** of a wide range of crisps. *Tyrrells Ltd* plans to **increase its sales** – the company’s turnover is forecast to double from £6 million to £12 million over the next year. This is likely to mean a much **larger workforce**. Currently it has 45 production staff all of whom are **fully trained** in all aspects of making crisps. The workforce are, therefore, **highly flexible and motivated**. 15

Tyrrells Ltd sells in a **niche market** and distributes its potato crisps directly to 6 000 quality independent retailers throughout the UK, including the Waitrose supermarket chain. It faces tough competition from larger established manufacturers of crisps, for example, Walkers Foods Ltd. *Tyrrells Ltd*’s crisps sell for 54 pence per 50 gram bag compared with **41 pence** for a similar sized bag of Walkers’ crisps. *Tyrrells Ltd* won gold, silver and bronze industry awards for its crisps last year giving a major boost to its marketing campaign. It is building on its success and excellent reputation by expanding into new markets. 20

Sources: adapted from BBC News at bbc.co.uk/news and photograph from www.tyrrellspotatochips.co.uk

- (a) Explain, with the aid of a numerical example, what is meant by the phrase "...falling net profit margin..." (line 3).

Net profit margin is calculated by finding net profit - gross profit less overheads - then dividing this by Revenue and multiplied by 100 eg. $\frac{(\text{Sales} - \text{cost of sales}) - \text{OC}}{\text{Revenue}} \times 100$

$$= \frac{(100 - 25) - 40}{110} \times 100 = 32\%$$

However, falling net profit means that the profit margin has decreased, meaning Tyrrells is less profitable (4 marks)

- (b) Analyse the importance of monitoring quality to Tyrrells Ltd.

This is of great importance because quality is Tyrrells Ltd's unique selling point. Tyrrells' marketing plan is also based upon the superior quality of their crisps. If Tyrrells Ltd did not carefully monitor quality, poor quality crisps could go on sale, therefore rendering their unique selling point and high price quality.

If customers are paying more for what they expect to be a high quality product, but it isn't because of a lack of poor quality control, they will be disappointed, therefore affecting the company's reputation and ultimately future profits. For these reasons, quality control is very important.

(9 marks)

- (c) Discuss the factors that might have influenced *Tyrrells Ltd*'s choice of a marketing mix for its crisps.

The marketing mix is the combination of product, price, place and promotion in a firm's marketing activities.

The fact that Tyrrells' crisps are of higher quality will mean that the costs of manufacture will be higher than industry averages. This will result in higher costs, therefore a higher price will need to be set in order to gain profits. This means that promotional activities, such as advertising, will need to tell consumers why ~~the~~ Tyrrells' crisps cost more and are worth the extra cost, probably focusing on the superior quality. This will then link with the stores in which the crisps are sold. As suggested in the case study, Tyrrells will want their crisps to be associated with high quality stores, such as Waitrose, rather than bargain based supermarkets like Tesco.

(12 marks)

- (d) Some business analysts believe that training will be the key to *Tyrrells Ltd* maintaining an effective workforce as the company doubles its size. To what extent do you agree with this view?

I think this statement is correct in some respects, because the company hand-makes crisps. The staff are fully trained and so when 45 new workers join, they will need to be equally trained in order to maintain current quality and efficiency levels.

However this training is probably very expensive and so may prove too expensive to train all of the new workers. If only training workers to do part of the crisp manufacturing process, *Tyrrells* will save initial start up costs but lose future benefits such as employee flexibility. For this reason, I think that training will be crucial in maintaining a flexible and efficient workforce.

If the company doubles in size, there will be economies of scale that can be achieved, but equally it is likely that communication will be harder and wider spans of control could mean that workers need to be more involved in the decision making process. Therefore employees may need to be more flexible and so will need to be fully trained in order to ^(15 marks) achieve flexibility and understand employee participation.

2 Read the case study below and then answer the questions that follow.

High Performance

Chris Bertolotti is only 27, yet owns and manages a highly successful business, *CB Tyres Ltd*. Three years ago, Chris was a tyre fitter with Kwik-Fit before leaving to set up his own internet-based tyre-fitting company. Chris's company now supplies nearly 1000 independent garages with tyres and has an annual turnover of £1.9 million.

Chris had worked for Kwik-Fit for five years. It was during this period that he spotted a gap in the market for the supply of famous brand specialist tyres (eg Pirelli) for high performance cars. He set up *CB Tyres Ltd* in 2004. Customers order tyres on the internet. The following day they have them fitted at the nearest garage to them which is a member of Chris's 'Performance Tyres Scheme'. Chris explains his business. "I hold the stock at the warehouse in Coventry and dispatch them as soon as an order is received. The garage then fits the tyres for my customers. Having an efficient network of garages supplying tyre fitting services for me is essential. High quality customer service is the most important operational issue for my business."

Table 1: Revenue, cost and profits budget CB Tyres Ltd August and September 2007

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The company's workforce is currently twelve people and has risen steadily as Chris has appointed people through external recruitment. The company employs an office manager, a warehouse manager as well as administrators and drivers. All Chris's employees are full-time, permanent employees.

CB Tyres Ltd's turnover has increased from £190 000 in 2004 to its current figure of £1.9 million. Chris recognises that his policy of supplying customers quickly and efficiently is his business's USP and a major factor in sales growth. Chris has also maintained a policy of keeping prices low; his extensive advertising stresses the quality of service and price competitiveness, though this is difficult against larger rivals such as Kwik-Fit.

The financial side of the business has caused some problems. The company has relatively high fixed costs in the form of stocks of tyres and the costs of maintaining its delivery network and website. These costs have been a burden whilst sales have been low. Chris's pricing policy has meant that profit margins have been slim (at 5%) and the company has had to sell high volumes to make a reasonable profit.

- (a) (i) Calculate *CB Tyres Ltd's* **budgeted** sales revenue for August 2007 and its **actual** total costs for September 2007.

$$156110 + 7890 = \text{£}164000 \text{ Budget sales revenue}$$

$$166000 - 4800 = \text{£}161200 \text{ Actual total costs}$$

(2 marks)

- (ii) Calculate the company's profit variance for the two months August and September 2007. You should state whether it is favourable or adverse.

$$\text{Profit variance} = \text{Budget Less Actual}$$

August

$$= 7890 - 4200$$

$$= \text{Adverse profit variance of } \text{£}3690$$

September

$$= 9540 - 4800$$

$$= \text{Adverse profit variance of } \text{£}4740$$

Favourable / Adverse
(6 marks)

Question 2 continues on the next page

- (b) Analyse **two** advantages to *CB Tyres Ltd* of using external recruitment to appoint new employees.

One advantage of external recruitment is that an external recruitment agency is probably more efficient. External recruitment firms specialise in recruitment and will therefore have a better and more efficient system and will therefore recruit employees at a lower cost.

Another benefit of external recruitment is that it will ensure that the right person for the job is employed. An external recruitment agency may have a wide range of potential employees, the ability to headhunt or have links with the unemployed in an industry, therefore finding the best person for the job.

(8 marks)

- (c) To what extent do you agree with Chris that, "High quality customer service is the most important operational issue..." for his business (line 12)?

I do not agree with this statement in that I think the quality of the tyres and pace of delivery are the most important operational issues in his business. An efficient delivery system that ensures that the tyres are delivered quickly at the lowest cost is most important because this is the USP of the service.

High quality customer service is also of little importance because it is not actually his company that are fitting the tyres. It is local garages that actually fit the tyres and so customer service will be hard to control. The customer service of these garages does have an impact on the reputation of the firms, but it is not as important as the speed and efficiency of delivery.

The case study suggests that the costs of maintaining the delivery service are too high and so maybe controlling these costs are more important than customer service. (11 marks)

- (d) Evaluate the actions that *CB Tyres Ltd* might take to improve its profitability.

One way in which the company could improve costs is to hold lower stocks, therefore increasing profitability. The case study suggests that the huge cost of holding large numbers of tyres in stock are affecting profits. If Chris employed a Just-in-time stock delivery system he would be able to reduce costs, therefore increase profits.

Alternatively, Chris could change ~~market~~ market segment. Rather than trying to compete with large, established firms such as Kwik-Fit, he could maintain high quality products and customer service and increase price. This would mean targeting advertising and marketing at a wealthy customer base, who are more likely to have performance cars that require such high quality tyres. This would mean CB would need to sell less to achieve the same profits, but will allow the company to maintain its current business model. Market penetration may be risky, but could equally increase profits. CB Tyres' overheads contribute a large amount to costs and so by controlling

(13 marks)

END OF QUESTIONS

or trying to reduce fixed costs, CB may be able to increase profitability. High purchase costs are expected because the company sells high quality tyres, yet if cheaper ~~of~~ supplies can be found this should be considered. However, as CB Tyres does not need a garage, which would result in high overhead costs, the overhead costs are

(c) Alternatively, if Chris wants to focus on the customer service, rather than delivering tyres next working day, he could prolong delivery, therefore reducing costs but bring in a special contract with each garage that ensures his specified level of customer service is achieved.

fairly high and may need to be controlled ~~to~~ increase ~~of~~ profitability.

CB Tyres could introduce a combination of these suggestions in order to increase profitability.

COMMENTARY ON BUSS2 SPECIMEN EXAMINATION PAPER

CANDIDATE Y

Question 1(a)

Candidate Y achieves both content marks for demonstrating a clear understanding of the net profit margin and its calculation. Unfortunately, the candidate does not appear to have read the question carefully and seems to have interpreted it as showing why net profit margin would be less than gross profit margin. Because only one net profit margin is shown it is impossible to give credit for a demonstration of a fall in net profit margin.

Question 1(b)

This is a solid combination of knowledge, application and analysis. However, it does not provide the level of development required to achieve very high marks for the latter two skills; the final paragraph, in particular, is rather vague.

Question 1(c)

This response takes some time before it gets into the essence of the answer required. Although the responses remain faithful to *Tyrrells Ltd*, the application itself is rather generic and there is a lack of explicit arguments. The reference to Waitrose and Tesco is a case in point, where the candidate appears to be expecting the examiner to interpret the reason why Waitrose would be a better choice than Tesco. Candidates should try to make their argument explicit as implicit statements require too much interpretation by examiners.

Question 1(d)

This response shows that Candidate Y has a good understanding of business concepts and their application. The theory is strong but there is a less effective use of the case study material than in some other questions. Some of the application is derived from Candidate Y's own interpretation of the crisp manufacturing process. Overall, this is a good, well-balanced answer to the question.

Question 2(a)(i)

This is a clearly presented set of calculations that receives both available marks.

Question 2(a)(ii)

Both the August and September profit variances have been calculated correctly. Candidate Y has not then taken these two responses in order to calculate an overall profit variance for the two months.

Question 2(b)

This is a problematic answer to assess. The candidate has defined external recruitment incorrectly, although the suggestion offered *is* an aspect of external recruitment.

In the second paragraph a valid argument is presented in that external recruitment does provide a wide range of potential employees. The final part, "therefore finding the best person to do the job" can be seen as a simple piece of analytical development of a form of recruitment that is an element of external recruitment. Credit should therefore be given to these parts of the answer.

Question 2(c)

In a question such as this, there is a tendency for candidates to try as much as possible to agree with the statement in the question. Candidate Y has not followed this tendency and has produced a well-reasoned argument to support the view that high-quality customer service is *not* the most important operational issue. Candidate Y has supported his opinion very effectively and this answer achieves a high mark, especially for evaluation.

Question 2(d)

This answer starts very strongly but then loses its way as it becomes confused about the nature of *CB Tyres Ltd's* market. Subsequently, it does recover somewhat, but the remainder of the answer tends to be rather generic and unfocused. Despite these issues there is enough here to receive a solid mark across all of the skill areas.

Overall

With the exception of Question 2(b) there are no major flaws in the answers provided by Candidate Y. A good grasp of factual knowledge is shown and, in most answers, relevant analysis and some application is presented. Evaluative skills are demonstrated in three of the four questions requiring evaluation.

Surname	
Centre Number	
Candidate signature	

CANDIDATE Z



General Certificate of Education
Specimen Paper for 2009 and 2010
Advanced Subsidiary Examination



BUSINESS STUDIES
Unit 2 Managing a Business

BUSS2

For this paper you must have:

- a calculator.

Time allowed: 1 hour 30 minutes

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- Answer the questions in the spaces provided.
- Do **all** rough work in this book. Cross through any work you do not want to be marked.
- If you need additional space, you should continue your answers at the end of this book indicating clearly which question you are answering.

Information

- The maximum mark for this paper is 80.
- The marks for questions are shown in brackets.
- Questions 1(c), 1(d), 2(c) and 2(d) should be answered in continuous prose. In these questions you will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

For Examiner's Use			
Question	Mark	Question	Mark
1			
2			
Total (Column 1)		→	
Total (Column 2)		→	
TOTAL			
Examiner's Initials			

Answer **all** questions in the spaces provided.

1 Read the case study below and then answer the questions that follow.

Making a packet?

William Chase is a farmer turned entrepreneur. For nearly twenty years William has grown potatoes on his farm in Herefordshire. Most were supplied to supermarkets, but this became an increasing problem. A falling net profit margin on potatoes meant that William decided it was not worthwhile continuing to supply supermarkets, and that a change of direction was needed.

5



At this point, William took a gamble. Instead of selling his potatoes he switched to making high quality, hand-made crisps – most crisps in the UK are made by machines. The company controls the production process from the selection of the right varieties of potato to make crisps through to the manufacturing process using “...a refined, natural potato.” The company uses no pesticides or additives. It also only sells in selected outlets, recently refusing to supply Tesco.

10

The decision was a success and the company, *Tyrrells Ltd*, has established itself as a quality supplier of a wide range of crisps. *Tyrrells Ltd* plans to increase its sales – the company's turnover is expected to reach £12 million in the next year. This is likely to mean a growing workforce. Currently it has 45 production staff all of whom are fully trained in all aspects of making crisps. The work force is growing rapidly and the company is expanding its production facilities.

15

Tyrrells Ltd sells in a wide range of outlets and distributes its potato crisps directly to independent retailers throughout the UK, including the *Waitrose* supermarket chain. It faces strong competition from larger established manufacturers of crisps, for example, Walkers Foods Ltd. *Tyrrells Ltd*'s crisps sell for 54 pence per 50 gram bag compared with 41 pence for a similar sized bag of Walkers' crisps. *Tyrrells Ltd* won gold, silver and bronze industry awards for its crisps last year giving a major boost to its marketing campaign. It is building on its reputation by expanding into new markets.

20

Sources: adapted from BBC News at bbc.co.uk/news and photograph from www.tyrrellspotatochips.co.uk

- (a) Explain, with the aid of a numerical example, what is meant by the phrase "...falling net profit margin..." (line 3).

is where ~~per~~ profit is decreasing so the ~~point~~ distance between break even and profit is becoming smaller, which is a "falling net profit margin"

- (b) Analyse the importance of monitoring quality to Tyrrells Ltd. (4 marks)

wop
high
quality
shops,
higher
prices

Monitoring quality is where the work force must check the product to see if it is good quality.

It is important to Tyrrells as their unique selling point is to be high quality and they must keep this quality so that customers are not lost.

Also, if the product is high quality Tyrrells are able to charge higher prices, which could increase profit.

Additionally, Tyrrells must be careful not to lose the shops that are selling their crisps, which is more likely with a smaller shop than with Waitrose, but if quality changed, the shops will not be happy.

(9 marks)

niche market - less comp. → Place - higher quality shops
Price - more, higher quality
Product - healthier
Promotion - none explained but got award

LEAVE
MARGIN
BLANK

(c)

Discuss the factors that might have influenced Tyrrells Ltd's choice of a marketing mix for its crisps.

They chose a niche market because there is less

competition from large companies such as Nalka.

Also, this means the price may be higher, as it is higher quality and has a unique selling point.

They choose higher quality shops and smaller shops, so are not with rival companies and able to be sold as a healthier offer option.

The promotion of the product is not really discussed but they did receive an award which should boost sales and their customer base.

(12 marks)

→ motivation

(d) Some business analysts believe that training will be the key to *Tyrrells Ltd* maintaining an effective workforce as the company doubles its size. To what extent do you agree with this view?

I agree as the company must make sure that staff know staff objectives and are motivated ~~for~~ so high quality crisps are made. Training will make new employees feel involved and will help them not find the work too challenging, which will motivate them.

It will make staff more efficient as staff will be doing procedures correctly which increases quality and productivity, therefore profit.

Although, I do think it is important that *Tyrrells* uses other Human Resource management processes to make staff feel involved, this will improve efficiency and motivation

(15 marks)

40

2 Read the case study below and then answer the questions that follow.

High Performance

Chris Bertolotti is only 27, yet owns and manages a highly successful business, *CB Tyres Ltd*. Three years ago, Chris was a tyre fitter with Kwik-Fit before leaving to set up his own internet-based tyre-fitting company. Chris's company now supplies nearly 1000 cars per month with tyres and has an annual turnover of £64.9 million.

Chris had worked for Kwik-Fit for five years. It was during this period that he specialised in the supply of famous brand specialist tyres (eg Pirelli) for high performance cars. He set up *CB Tyres Ltd* in 2004. Customers order tyres on the internet. The following day they have them fitted at the nearest garage to them which is a member of Chris's 'Preferred Tyre Fitters Network'. Chris explains his business. "I hold the stock at the warehouse in Coventry and dispatch them as soon as an order is received. The garage then fits the tyres for the customer. Having an extensive network of garages supplying tyre fitting services for me is essential. High quality customer service is the most important operational issue for my business."

Table 1: Revenue, cost and profits budget *CB Tyres Ltd* August and September 2007

	August		September	
	Budget (£000s)	Actual (£000s)	Budget (£000s)	Actual (£000s)
Sales revenue		162 500	170 000	166 000
Purchases of stock	86 750	86 700	90 010	89 450
Wages and salaries	16 850	16 600	17 360	17 400
Overheads	40 110	42 000	40 110	41 500
Other costs	12 400	13 000	12 980	12 850
Total costs	156 110	158 300	160 460	
Profit/(Loss)	7 890	4 200	9 540	4 800

The company's workforce is [redacted] and has risen steadily as Chris has [redacted]. The company employs an office manager, a warehouse manager as well as administrators and drivers. All Chris's employees are full-time, permanent employees.

CB Tyres Ltd's turnover has increased from £190 000 in 2004 to £64.9 million in 2007. Chris recognises that his policy of supplying customers with high quality tyres is a key factor in the company's success and a major reason for its growth. Chris has also maintained a policy of keeping prices low; his emphasis on customer service stresses the quality of service and price competitiveness, though this is a challenge against competitors such as Kwik-Fit.

The financial side of the business has caused some problems. The company has relatively high fixed costs, such as rent, rates, and salaries, which are difficult to reduce. These costs have been a burden whilst sales have been low. Chris's pricing policy has meant that profit margins are low (at 5%) and the company has had to sell high volumes to make a reasonable profit.

(a) (i) Calculate CB Tyres Ltd's budgeted sales revenue for August 2007 and its actual total costs for September 2007.

156,110 + 7890 = £164,000,000 = Aug 2007
Total costs Sept 2007 = £16,720,000

(2 marks)

(ii) Calculate the company's profit variance for the two months August and September 2007. You should state whether it is favourable or adverse.

August = w £3,690,000 adverse
Sept = w £4,740,000 adverse

£8,430,000

~~Favourable~~ / Adverse
(6 marks)

Question 2 continues on the next page

- (b) Analyse two advantages to *CB Tyres Ltd* of using external recruitment to appoint new employees.

~~Staff may be trained already~~
~~which may save costs for~~
~~CB Tyres Ltd, which will be~~
~~particularly helpful for CB Tyres~~
~~because they have a high~~
~~amount of costs.~~
Additionally, ~~there will~~ They may
bring new ideas into the business
which can boost motivation and
productivity.

(8 marks)

- (c) To what extent do you agree with Chris that, "High quality customer service is the most important operational issue..." for his business (line 12)?

High quality customer service is important ~~as~~ as the service ~~is~~ has a unique selling point and customers may be charged higher prices, so quality service is needed to justify price.

To satisfy customers this is the most important operational issue, but there are other issues Chris must consider, such as finance, and employee satisfaction.

(11 marks)

- (d) Evaluate the actions that *CB Tyres Ltd* might take to improve its profitability.

Use just-in-time stock management to save storage costs and insurance costs, which will decrease ~~the~~ total costs, and therefore increase profitability.

CB Tyres could advertise more and try and obtain more customers that would increase sales.

They could perhaps only deliver to certain areas so that delivery costs weren't as expensive.

They could increase prices as they have a unique selling point and people are willing to pay higher prices.

CB Tyres may be able to use much more effective HRM, such as workforce planning, so that labour costs are decreased.

(13 marks)

END OF QUESTIONS

40

COMMENTARY ON BUSS2 SPECIMEN EXAMINATION PAPER

CANDIDATE Z

Question 1(a)

Candidate Z shows no understanding of net profit margin. The answer brings in the idea of profit but does not address the needs of the question.

Question 1(b)

Candidate Z shows a clear understanding of the importance of monitoring quality for *Tyrrells Ltd*. However, the second illustration of application lacks focus and the analysis would benefit from a more sustained and developed line of argument.

Question 1(c)

There is evidence of good planning provided at the top of the sheet of paper. Unfortunately, it is not uncommon for a plan to be sidetracked under the pressure of an examination situation and this may have been the case with this answer. Candidate Z has identified a couple of relevant factors and applied them, but there is no real analytical skill being shown and no attempt to evaluate in the opening two paragraphs. The final paragraph is irrelevant as it is not addressing the question.

Question 1(d)

This response shows some comprehension of business theory, but it could be applicable to any business. The fact that the name '*Tyrrells Ltd*' is included within the final paragraph does not mean that this answer is being applied, because the argument presented does not specifically relate to *Tyrrells Ltd* or its situation within the article. Consequently, this response receives no marks for application skills.

Question 2(a)(i)

This is a well-presented set of calculations that earns the full two marks.

Question 2(a)(ii)

Candidate Z shows no calculations or working out within the answer. This is poor examination technique – if the final answer is wrong it is likely to receive no marks. Fortunately, Candidate Z has calculated the answers correctly and achieves all six marks.

Question 2(b)

Candidate Z has shown poor examination technique by crossing out an argument. The opening paragraph that has been deleted is worthy of some marks and can be rewarded if it is left to the examiner to judge.

Question 2(c)

The brevity of the answer to this question means that it is difficult for the examiner to award high marks. The arguments presented are not developed sufficiently in the context of a question with a maximum of 11 marks available.

Question 2(d)

Candidate Z presents some sound ideas in response to this question and then proceeds to analyse and apply them in a straightforward manner. It appears that the candidate is not making sufficient use of their understanding as the argument presented could have lead on to more detailed analysis. There is also no final, evaluative conclusion. The lack of any judgement/evaluation is the main omission from this particular answer.

Overall

Candidate Z was boosted considerably by correct calculations at the beginning of question 2. Overall, there were some gaps in the knowledge and analytical skills shown which lacked the depth required to achieve a high mark. The candidate tried to apply their answers to the case study in most questions but found evaluation much more difficult. Where evaluation was shown it was invariably unsupported or superficial. Despite the weaknesses, Candidate Z gained marks steadily on most questions.